

“Pension Reform: How USAID Helps?”

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An adequate and reliable pension income is a direct means for alleviating poverty among the elderly.

What Is Pension Reform?

A Broad Overview

- ◆ Adequate Income for Retirees
- ◆ Budgetary Soundness
- ◆ Capacity to Manage and Regulate Efficiently and Effectively

Policy Considerations: The Details Matter

- ◆ **Age (RA)**
- ◆ **Benefit (RR)**
- ◆ **Contribution (CR)**
- ◆ **Demographics (DR)**

Common Problems and Constraints

- ❖ Low Pension Benefits
- ❖ Poor Administration
- ❖ Bankrupt Pension System
- ❖ No Private Pension Industry
- ❖ In-kind Contributions and Benefits

Additional Problems and Constraints

- ◆ Benefit Arrears
- ◆ Gray Economy
- ◆ Poor Compliance
- ◆ Low Retirement Age
- ◆ Declining Birth Rates
- ◆ Benefits Not Tied to Contributions

Pension Reform Expectations

- ◆ Increased Savings
- ◆ Increased Pension Benefits
- ◆ Reduction of the Shadow Economy
- ◆ Steady Cash Flow for the Capital Market

Types of Pension Reforms

◆ Parametric

- ◆ Change the rules for retirement age, eligibility, benefits, contributions
- ◆ Combat evasion to increase participation

◆ Notional Defined Contribution (NDC)

- ◆ Link benefits to contributions
- ◆ Minimize labor market distortions with incentive to join formal sector

◆ Systemic

- ◆ Create funded pension plans
- ◆ Generate long-term savings
- ◆ Help stimulate capital markets development

What do You Need?

Pension Reform Preconditions

Pension reform is not a leading edge reform. Pension reform builds on other financial and economic development initiatives, providing long-term capital for sustainable growth.

- ◆ Stable banking system
- ◆ Adequate legal structure
- ◆ Capital markets development
- ◆ Effective financial sector regulation
- ◆ Effective corporate governance
- ◆ Economic activity and others

How Has USAID Helped?

- ◆ Legal and Regulatory Framework
- ◆ Actuarial Analysis
- ◆ Public Education
- ◆ Information Systems
- ◆ Compliance and Enforcement
- ◆ Education, Education, Education

What Have We Learned?

- ◆ Pension reform tends to follow other basic reforms such as banking and capital markets
- ◆ Highly political and emotional charged
- ◆ It can't be successful without citizen participation – i.e. both weigh-in and buy-in
- ◆ Each reform is similar but very different
- ◆ Get it right from day one or else

Where Is Our Competitive Advantage?

- ◆ Grant assistance, no loans
- ◆ The activity is in response to the country's request for technical assistance
- ◆ Utilize a wide range of experts from around the globe
- ◆ Daily, long-term contact with the counterparts